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TAGS: PREL ECON ETRD AR

SUBJECT: MERCOSUR SUMMIT IN CORDOBA: MORE QUESTIONS THAN ANSWERS

REF: BUENOS AIRES 1631

Classified By: CDA Michael Matera for reasons 1.4 (b) and (d)

¶1. (C) SUMMARY: The MERCOSUR summit, which took place July 20-21 in Cordoba, left more questions than answers about the future of the regional organization. The impact of Venezuela joining the union, how to better treat the smaller members of the bloc, whether MERCOSUR can return to a primarily economic rather than political organization - are all questions that are still wide open. The MFA Under Secretary for Latin America argued to emboffs July 26 that MERCOSUR emerged from the summit in much stronger shape than in the months before. Private-sector Embassy contacts, however, argue that the regional organization's future is as opaque as ever. END SUMMARY.

THE VIEW FROM THE GOA

¶2. (C) MFA Under Secretary for Latin American Affairs Ambassador Leonardo Franco, in a meeting with Charge and emboffs July 26, said that the six-month leadup to the summit had been "very difficult," citing the Argentina-Uruguay papermill conflict and the sharp complaints of the smaller members over unequal treatment. When asked about the Uruguayan consideration of an FTA with the U.S., he admitted it too was a real challenge. However, he stated that "MERCOSUR is coming out of the summit strengthened," in a way that "could show a new reality for Latin America." He cited the "large dynamism" that Venezuela brings to the organization and the fact that Mexico is moving closer to associate membership as evidence, concluding that MERCOSUR "continues to be an economic relationship, but with much more political strength" than before. He also noted efforts to bring Bolivia into the fold, adding that GOA reps will attend the early August opening of the Bolivian Constituent Assembly in Sucre. When questioned by the Charge about Argentina and Brazil's lack of "protagonism" at the summit, he downplayed the perceived dominance of Castro and Chavez as "rhetorical presence," saying it wasn't true during the plenary sessions. He also lauded the commitment to form a commission to propose "concrete" solutions to the problem of small-economy

asymmetries, and the proposed new regional development bank (a GOA initiative), which he says will focus on lending directly to private businesses, in contrast to the Andean Development Bank (CAF) which lends mainly to the public sector. In addition to these issues, Franco related the serious discussions regarding regional energy policy, an extremely important issue for all of the MERCOSUR members.

¶ 13. (C) When asked about MERCOSUR's endorsement of Venezuela's candidacy for the 2007-09 UNSC security seat in the summit declaration, Franco said the MERCOSUR group had earlier confirmed this position at the July 5 Caracas summit where Venezuela was formally welcomed as a full MERCOSUR member. Charge countered that the USG and a large and growing number of countries oppose the Venezuelan candidacy and hope that the MERCOSUR members will eventually see the difficulties that Venezuelan membership would involve.

WHAT HAPPENED

¶ 14. (C) Leading up to the MERCOSUR summit, the biggest unknown was whether or not Fidel Castro would show. Despite many rumors to the contrary, Castro did indeed arrive on the 20th (ref A), joking that "Even I didn't know if I would attend." Nearly everything else associated with the summit went roughly as expected, with Chavez and Castro garnering most of the press, a predictable "People's (or parallel) Summit" led by Castro and Chavez, and (other than the inclusion of Venezuela, and announcing support for Venezuela's UNSC seat bid) no other decisions of clear import. (The asymmetry commission and development bank have some potential, but they

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are only proposals to consider thus far.)

¶ 15. (C) Perhaps the only real surprise of the Summit were events related to Hilda Molina, a Cuban neurosurgeon who has been denied permission by the Cuban government to visit her son and grandsons in Argentina. Ambassador Franco admitted that the issue had clearly impacted quite negatively on the Argentine/Cuban dynamic, but he said the GOA position on this issue was clear and had not changed. He added that he did not know what to expect from Havana in response to a letter from Kirchner to Castro on the issue.

¶ 16. (C) Roberto Quinones told Poloff on July 25 that Kirchner had insisted on delivering the letter on Molina's behalf to Castro, threatening to raise the issue in the plenary session if Castro would not receive it, which reportedly made Castro angry enough to nearly order his plane to return to Cuba in mid-flight. This was likely the cause of the evident coldness between Castro and Kirchner. According to Quinones, an influential (but unnamed) Argentine leftist also told the Cuban delegation that he would walk off the stage at the People's Summit if Castro made any negative remarks about Kirchner. Castro became visibly angry when, upon his arrival to the summit, he was asked by a Cuban reporter based in Miami, "Why don't you release Molina?"

WHAT TO EXPECT IN THE FUTURE

¶ 17. (C) Among private sector contacts, there was strong agreement that the inclusion of Venezuela as a full member of MERCOSUR (NOTE: The BRV will not be a voting member until all five congresses ratify its accession; so far, only the Venezuelan has done so. END NOTE) will make the organization more politically - and less economically - oriented. Daniel Artana, the director of economic consultant FIEL, told econoff July 20 that "Kirchner doesn't join with Chavez because he thinks like him, but because it's convenient" for Argentina. However, political analyst Rosendo Fraga told emboffs July 21 that "It won't be easy to say no to Chavez"

and any demands he brings to the table. Felix Pena, Director of Fundacion BankBoston, complemented this theory, telling econoff July 25 that MERCOSUR said yes to Venezuela's accession because "it was easier than saying no" politically, but thought the act could have been postponed much longer than the less than a year that it took.

¶8. (C) However, there is some disagreement over whether Venezuela's membership will be good for Argentina. Artana was positive, saying that increased access to Venezuelan finance and hydrocarbons would help. Fraga noted that Chavez was now the leader of the region, at least in the short term, and that he had been "underestimated by the U.S., Brazil, and now by Argentina." Pena opined that "nobody serious (in the GOA) is thinking this is good for our country." FIEL economist Marcela Cristini took a balanced view, telling econoff July 21 that despite the recent economic growth and prospects for more, it still felt like Argentina was being left behind and "losing much of its weight relative to the region."

¶9. (C) COMMENT: Mar del Plata this was not - if anything, there was less anti-U.S. rhetoric than expected rather than more. What was remarkable about the summit was the degree to which Argentina and Brazil, the two key protagonists in MERCOSUR since its founding, played secondary roles at this summit, while Chavez and Castro dominated. The parallel People's Summit was less weighty than it could have been, as Morales didn't attend and Kirchner left Cordoba early, which has been interpreted as a snub of Chavez and Castro and their event. As Felix Pena said, "We should be prepared to observe an even more chaotic MERCOSUR" in the future, one in which Venezuela will seek "a greater influence in South America." While Franco described Venezuela's entry into the bloc in generally neutral terms ("important," can complement MERCOSUR"), Kirchner and Lula may be realizing that they now

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have a tiger by the tail, and that containing Chavez will not be nearly as easy as they once thought.

MATERA